

# AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Highland</u>	County Oakland
Audit Date December 31, 2005	Opinion Date February 7, 2006	Date Accountant Report Submitted To State: June 6, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **Charter Township of Highland Oakland County, Michigan**

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**Financial Report  
with Supplemental Information  
December 31, 2005**

# Charter Township of Highland

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**Plante & Moran, PLLC**  
27400 Northwestern Highway  
P.O. Box 307  
Southfield, MI 48037-0307  
Tel: 248.352.2500  
Fax: 248.352.0018  
plantemoran.com

## Independent Auditor's Report

To the Board of Trustees  
Charter Township of Highland  
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Highland as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Highland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Charter Township of Highland as of December 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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A worldwide association of independent accounting firms

To the Board of Trustees  
Charter Township of Highland

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Highland's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The combining balance sheet and combining statement of revenue, expenditures, and changes in fund balances for nonmajor governmental funds and Agency Funds have been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

February 7, 2006

# **Charter Township of Highland**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Charter Township of Highland's financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2005. Please read it in conjunction with the Township's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2005:

- Total net assets related to the Township's governmental activities increased by approximately \$1,203,000. The General Fund fund balance increased by approximately \$250,000. These increases resulted from the Township's vigilance in keeping costs down. In addition, the Township saw an increase in cable franchise fees and interest on investments.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

# Charter Township of Highland

## Management's Discussion and Analysis (Continued)

### The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current and previous year (in thousands of dollars):

	December 31	
	2005	2004
<b>Assets</b>		
Current assets	\$ 9,238,922	\$ 8,481,173
Noncurrent assets	14,136,951	13,753,698
Total assets	23,375,873	22,234,871
<b>Liabilities</b>		
Current liabilities	1,028,001	977,205
Long-term liabilities	10,499,979	10,612,966
Total liabilities	11,527,980	11,590,171
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	7,017,734	6,177,709
Restricted	2,547,925	1,985,679
Unrestricted	2,282,234	2,481,312
Total net assets	<u>\$ 11,847,893</u>	<u>\$ 10,644,700</u>

The Township's combined net assets increased 11.3 percent from a year ago - increasing from \$10,644,700 to \$11,847,893. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - totaled \$2,282,234 or about 34 percent of expenditures. Public safety continues to be the Township's greatest expense, totaling approximately 46 percent of total expenditures.

# Charter Township of Highland

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current and previous year:

	Year Ended December 31		Increases (Decreases)
	2005	2004	
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 1,667,175	\$ 1,541,573	\$ 125,602
Operating grants and contributions	30,090	29,622	468
Capital grants and contributions	683,060	325,222	357,838
General revenue:			
Property taxes	3,541,194	3,402,708	138,486
State-shared revenue	1,386,549	1,383,732	2,817
Unrestricted investment earnings	182,568	95,667	86,901
Miscellaneous revenue	340,885	261,727	79,158
Total revenue	7,831,521	7,040,251	791,270
<b>Program Expenses</b>			
General government	2,060,391	1,822,020	238,371
Public safety	3,041,434	2,886,238	155,196
Public works	1,061,954	1,281,500	(219,546)
Health and welfare	170,352	254,256	(83,904)
Community and economic development	22,933	27,215	(4,282)
Recreation and culture	271,264	734,383	(463,119)
Total program expenses	6,628,328	7,005,612	(377,284)
<b>Change in Net Assets</b>	<b>\$ 1,203,193</b>	<b>\$ 34,639</b>	<b>\$ 1,168,554</b>

### Governmental Activities

The Township's total governmental revenues totaled \$7,831,521 and were sufficient to fund the Township's current expenditures (including depreciation), overcome continued limits on state-shared revenue, and payment in lieu of tax (PILOT) payments.

Total government-wide expenses totaled \$6,628,328 during the year. Increased expenditures in excess of prior year amounts included rising rates for liability and health insurance. To offset this increase, the Township continues to require consultants to provide a scope and cost estimate prior to any project. As a result, this has limited their expenditures. Also, consulting with our insurance company's risk management experts on a multitude of issues provided the Township with pre-emptive measures that avoided costly lawsuits.



# **Charter Township of Highland**

## **Management's Discussion and Analysis (Continued)**

### **The Township's Funds**

Our analysis of the Township's major funds begins on page 10, following the government-wide financial statements. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2005 include the General Fund, the Capital Improvements Fund, the Water Fund, the Refuse Fund, the Fire Operating Fund, and the Police Fund.

The General Fund pays for most of the Township's governmental services. The most significant are the general township administrative services, which incurred expenses of approximately \$2.4 million in 2005.

### **General Fund Budgetary Highlights**

Township departments stayed below budget while not compromising existing services. This resulted in total expenditures approximately \$165,000 below budget. This allowed the General Fund's fund balance to increase from \$1,003,460 a year ago, to \$1,253,235 at December 31, 2005.

### **Capital Asset and Debt Administration**

At the end of 2005, the Township had \$13,056,734 invested in a broad range of capital assets, including buildings, equipment, and water mains. Current year additions totaling \$921,959 included maintenance work on the roadway entering Hickory Ridge Pines Park, construction of a bikepath along M59, and the purchase of a new ambulance.

At the end of 2005, the Township had outstanding long-term debt of \$6,152,527. Included in that amount is approximately \$4.6 million in outstanding general obligation bonds whose proceeds were used for the construction of the Township Library building. The majority of the other \$1.6 million is made up of several outstanding special assessment bonds.

### **Economic Factors and Next Year's Budgets and Rates**

When putting together the 2006 budget, the Township considered what to anticipate in the coming year, over and above its normal operations, specifically, increases in clerk department operations related to the gubernatorial election (\$35,000), administrative services related to possible sanitary sewer and water projects (\$30,000), ordinance preparation and acquisition of public education materials related to Storm Water Phase II (\$8,000), White Lake Road project overruns, Township maintenance (\$20,000), equipment replacement (\$25,000), health care, retiree health care, and employee payroll.

We took note that, midyear, the Michigan Township Association reported a possible 3 percent increase in revenue sharing, Comcast projected a 3 percent franchise fee increase, and interest earnings noticeably improved. All indications showed the State was on a positive, albeit slow recovery.

# **Charter Township of Highland**

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## **Management's Discussion and Analysis (Continued)**

Still, the wise approach to Michigan's economy may be the same way we approach our weather - wait a few minutes and it will change. With this in mind, all good news must be tempered with a strong dose of "what ifs?"

Our board intends to tackle the "what ifs?" of the Township and its future by gathering for a retreat in early March. While open to the public, this meeting will allow the board of trustees to talk candidly to each other about their vision of, and for, the Township. With the results in from a resident survey conducted in 2005, we will be able to weigh what matters most to those we serve.

It is the board's desire that this retreat will prompt an ongoing discussion that will influence our community's future and give direction to the Township's administration and staff when making policy and budgetary decisions.

It is the Township's goal to place an emphasis on listening to and serving our constituents well. In doing so, we will strive to provide an exceptional quality of life with the tax dollars provided.

### **Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

# Charter Township of Highland

## Statement of Net Assets December 31, 2005

	Primary Government - Governmental Activities	Component Unit - Downtown Development Authority
<b>Assets</b>		
Cash and investments (Note 3)	\$ 6,708,052	\$ 108,651
Due from other governmental units	313,621	-
Taxes receivable	1,933,476	-
Refuse assessment receivable	282,485	-
Special assessment receivable	1,080,217	-
Prepaid expenses	1,288	-
Capital assets (Note 5):		-
Not being depreciated	2,332,983	-
Subject to depreciation	10,723,751	-
Total assets	23,375,873	108,651
<b>Liabilities</b>		
Accounts payable	454,724	373
Accrued and other liabilities	85,054	-
Deferred revenue (Note 4)	4,835,675	-
Noncurrent liabilities (Note 7):		
Due within one year	488,223	-
Due in more than one year	5,664,304	-
Total liabilities	11,527,980	373
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	7,017,734	-
Restricted (Note 12):		
Refuse	555,326	-
Police and fire operations	622,539	-
Debt service	211,976	-
Capital projects	77,867	-
Water projects	1,080,217	-
Unrestricted	2,282,234	108,278
Total net assets	<u>\$ 11,847,893</u>	<u>\$ 108,278</u>

# Charter Township of Highland

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 2,060,391	\$ 402,380	\$ -	\$ -
Public safety	3,041,434	271,208	21,209	-
Public works - Refuse collection and roads	1,061,954	968,515	-	177,785
Health and welfare - Social Services and Senior Center	170,352	12,592	8,881	-
Community and economic development	22,933	11,980	-	67,106
Recreation and culture	271,264	500	-	438,169
Total primary government	<u><b>\$ 6,628,328</b></u>	<u><b>\$ 1,667,175</b></u>	<u><b>\$ 30,090</b></u>	<u><b>\$ 683,060</b></u>
Component unit - Downtown Development Authority				
	<u><b>\$ 92,922</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended December 31, 2005**

Net (Expense) Revenue and Changes in Net Assets	
Primary Government	Component Unit
\$ (1,658,011)	\$ -
(2,749,017)	-
84,346	-
(148,879)	-
56,153	-
167,405	-
(4,248,003)	-
-	(92,922)
3,541,194	124,413
1,386,549	-
182,568	2,407
340,885	30,642
5,451,196	157,462
1,203,193	64,540
10,644,700	43,738
<b>\$ 11,847,893</b>	<b>\$ 108,278</b>

# Charter Township of Highland

	Major Funds		
	Capital Improvement Funds		
	Capital		
	General	Improvement	Water
<b>Assets</b>			
Cash and investments (Note 3)	\$ 1,214,635	\$ 777,564	\$ 214,162
Due from other governmental units	248,729	-	-
Due from other funds (Note 6)	64,892	-	-
Taxes receivable	220,796	-	-
Refuse assessment receivable	-	-	-
Special assessment receivable	-	-	918,198
Prepaid expenses and other assets	-	-	-
Total assets	<u>\$ 1,749,052</u>	<u>\$ 777,564</u>	<u>\$ 1,132,360</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 32,660	\$ -	\$ 7,124
Accrued payroll and related taxes	14,273	-	-
Due to other funds (Note 6)	-	-	64,892
Deferred revenue (Note 4)	448,884	-	918,666
Total liabilities	495,817	-	990,682
<b>Fund Balances</b>			
Reserved for:			
Capital projects	-	-	-
Debt service	-	-	-
Unreserved, reported in:			
General Fund	1,253,235	-	-
Capital Project Funds	-	777,564	141,678
Special Revenue Funds	-	-	-
Total fund balances	<u>1,253,235</u>	<u>777,564</u>	<u>141,678</u>
Total liabilities and fund balances	<u>\$ 1,749,052</u>	<u>\$ 777,564</u>	<u>\$ 1,132,360</u>

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures

Compensated absences are included as a liability in governmental activities

Long-term liabilities and accrued interest are not due and payable in the current period and are not reported in the funds

Net assets of governmental activities

**Governmental Funds  
Balance Sheet  
December 31, 2005**

Major Funds			Other Nonmajor Governmental Funds	Total Governmental Funds
Special Revenue Funds				
Refuse	Fire Operating	Police		
\$ 1,028,480	\$ 942,079	\$ 1,726,019	\$ 805,113	\$ 6,708,052
-	-	-	-	248,729
-	-	-	-	64,892
-	531,252	1,027,784	-	1,779,832
282,485	-	-	218,536	501,021
-	-	-	162,019	1,080,217
-	-	-	1,288	1,288
<u>\$ 1,310,965</u>	<u>\$ 1,473,331</u>	<u>\$ 2,753,803</u>	<u>\$ 1,186,956</u>	<u>\$ 10,384,031</u>
\$ -	\$ 8,418	\$ 406,522	\$ -	\$ 454,724
-	20,098	-	-	34,371
-	-	-	-	64,892
755,639	1,080,048	2,089,509	610,103	5,902,849
755,639	1,108,564	2,496,031	610,103	6,456,836
-	-	-	77,867	77,867
-	-	-	211,976	211,976
-	-	-	-	1,253,235
-	-	-	108,520	1,027,762
555,326	364,767	257,772	178,490	1,356,355
555,326	364,767	257,772	576,853	3,927,195
<u>\$ 1,310,965</u>	<u>\$ 1,473,331</u>	<u>\$ 2,753,803</u>	<u>\$ 1,186,956</u>	
				13,056,734
				1,067,174
				(46,723)
				(6,156,487)
				<u>\$ 11,847,893</u>

# Charter Township of Highland

	Major Funds		
	Capital Improvement Funds		
	General	Capital Improvement	Water
<b>Revenue</b>			
General property taxes	\$ 454,773	\$ -	\$ -
Licenses and permits	251,801	-	-
Federal sources	34,133	-	-
State sources	1,395,430	-	-
Local sources	-	-	-
Charges for services	306,372	-	-
Special assessments	-	-	177,785
Interest and other revenue	198,193	118,158	4,017
Total revenue	2,640,702	118,158	181,802
<b>Expenditures</b>			
Legislative	22,756	-	-
Supervisor's office	155,645	-	-
Clerk's office	138,399	-	-
Treasurer's office	134,978	-	-
Accounting department	51,819	-	-
General government	1,084,241	-	-
Social services	9,834	-	-
Senior center	143,220	-	-
Refuse disposal	-	-	-
Cemetery	22,933	-	-
Law enforcement	22,885	-	-
Building, planning, and assessing	539,030	-	-
Zoning Board of Appeals	11,754	-	-
Police services and fire department	-	-	-
Community parks	13,059	-	-
Debt service	-	-	127,582
Professional services	-	11,541	-
Capital outlay and other	-	76,099	-
Total expenditures	2,350,553	87,640	127,582
<b>Excess of Revenue Over (Under) Expenditures</b>	290,149	30,518	54,220
<b>Other Financing Sources (Uses)</b>			
Transfers from other funds (Note 6)	9,626	-	-
Transfers to other funds (Note 6)	(50,000)	-	-
Total other financing sources (uses)	(40,374)	-	-
<b>Net Change in Fund Balances</b>	249,775	30,518	54,220
<b>Fund Balances - Beginning of year</b>	1,003,460	747,046	87,458
<b>Fund Balances - End of year</b>	<u>\$ 1,253,235</u>	<u>\$ 777,564</u>	<u>\$ 141,678</u>

The Notes to Financial Statements are an  
Integral Part of this Statement.



**Governmental Funds**

**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**Year Ended December 31, 2005**

Major Funds			Other Nonmajor Governmental Funds	Total Governmental Funds
Special Revenue Funds				
Refuse	Fire Operating	Police		
\$ -	\$ 656,911	\$ 1,965,125	\$ 464,385	\$ 3,541,194
-	-	-	-	251,801
-	-	-	-	34,133
-	-	5,209	-	1,400,639
-	-	16,000	-	16,000
932,974	-	185,409	-	1,424,755
-	-	-	79,794	257,579
63,711	27,636	41,463	16,119	469,297
996,685	684,547	2,213,206	560,298	7,395,398
-	-	-	-	22,756
-	-	-	-	155,645
-	-	-	-	138,399
-	-	-	-	134,978
-	-	-	-	51,819
-	-	-	-	1,084,241
-	-	-	-	9,834
-	-	-	-	143,220
845,606	-	-	-	845,606
-	-	-	-	22,933
-	-	-	-	22,885
-	-	-	-	539,030
-	-	-	-	11,754
-	580,092	2,288,599	-	2,868,691
-	-	-	-	13,059
-	-	-	534,363	661,945
-	-	-	-	11,541
-	-	-	203,204	279,303
845,606	580,092	2,288,599	737,567	7,017,639
151,079	104,455	(75,393)	(177,269)	377,759
-	-	-	65,000	74,626
(9,626)	(15,000)	-	-	(74,626)
(9,626)	(15,000)	-	65,000	-
141,453	89,455	(75,393)	(112,269)	377,759
413,873	275,312	333,165	689,122	3,549,436
\$ 555,326	\$ 364,767	\$ 257,772	\$ 576,853	\$ 3,927,195

# Charter Township of Highland

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2005**

**Net Change in Fund Balances - Total Governmental Funds** \$ 377,759

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	483,790
Depreciation	(497,847)

Capital grants and donations of capital assets are not reported in the funds	438,169
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Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end	(40,068)
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In the statement of activities, the gain on sale of assets is recorded; the funds record the proceeds from the sale of assets as revenue	(587)
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Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	416,500
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Change in long-term liability related to the personal property tax multiplier	(10,008)
---	----------

Accrued interest is an expenditure in the statement of activities, but not in the governmental funds	33,116
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Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	2,369
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**Change in Net Assets of Governmental Activities** \$ 1,203,193

# Charter Township of Highland

## **Fiduciary Funds Statement of Assets and Liabilities December 31, 2005**

	Special Escrow Fund	Current Tax Fund	Total Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 829,683	\$ 1,477,259	\$ 2,306,942
Cash and investments held on behalf of library	<u>90,258</u>	<u>-</u>	<u>90,258</u>
Total assets	<u><b>\$ 919,941</b></u>	<u><b>\$ 1,477,259</b></u>	<u><b>\$ 2,397,200</b></u>
<b>Liabilities</b>			
Due to other governmental units	\$ 24,870	\$ -	\$ 24,870
Performance bonds payable and other liabilities	895,071	-	895,071
Tax collections distributable	<u>-</u>	<u>1,477,259</u>	<u>1,477,259</u>
Total liabilities	<u><b>\$ 919,941</b></u>	<u><b>\$ 1,477,259</b></u>	<u><b>\$ 2,397,200</b></u>

# Charter Township of Highland

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## Notes to Financial Statements December 31, 2005

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Charter Township of Highland (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Highland:

#### **Reporting Entity**

The Charter Township of Highland is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

**Discretely Presented Component Units** - The Downtown Development Authority (DDA) is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the Township. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, consisting of 11 individuals, is approved by the Township board. In addition, the DDA's budget is subject to approval by the Township.

The Brownfield Development Authority (BRDA) was created, pursuant to Public Act 381 of 1996, to provide revitalization of environmentally distressed areas within the Township. The BRDA will be funded primarily by property tax revenue captures. Currently, there is no financial activity with the BRDA, nor have members of the board been appointed.

# Charter Township of Highland

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## Notes to Financial Statements December 31, 2005

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Township does not participate in any business-type activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

# Charter Township of Highland

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## Notes to Financial Statements December 31, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

**General Fund** - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Capital Improvements Fund** - The Capital Improvements Fund is used by the Township to record the activity of various Township improvement projects.

**Water Fund** - The Water Fund was set up by the Township to account for the debt service related to the special assessments for the construction of water mains.

**Refuse Fund** - The Refuse Fund is used by the Township to account for the results of operations that provide refuse collection services to citizens that are financed by a user charge for the provision of those services.

**Fire Operating Fund** - The Fire Operating Fund is used by the Township to account for the assets and operations of the fire department that are financed primarily by property taxes.

# Charter Township of Highland

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## Notes to Financial Statements December 31, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

**Police Fund** - The Police Fund is used by the Township to account for the results of operations that provide public safety police services to the Township through the Oakland County Sheriff's Department that are financed primarily by property taxes.

Additionally, the Township reports the following fund types:

**Agency Funds** - The Agency Funds account for assets held by the Township in a trustee capacity or as an agent for individuals, employees, organizations, other governments, or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

#### **Property Tax Revenue**

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 tax is levied and collectible on December 1, 2004 and is recognized as revenue in the year ended December 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township totaled \$713.6 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 0.6000 mills for operating purposes, a combined 0.6540 mills for library debt service, 0.9359 mills for fire operations, and 2.7996 mills for police operations. This resulted in approximately \$453,000 for operating, \$464,000 for library building and debt service, \$657,000 for fire operations, and \$1,965,000 for police operations. These amounts are recognized in the respective General, Special Revenue, and Capital Projects Funds financial statements as tax revenue.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note I - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, bank investment pools, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water mains), are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

During the current year, there was no interest expense that was capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Library building	50 years
Furniture and equipment	3 to 20 years
Water mains	50 years



# Charter Township of Highland

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## Notes to Financial Statements December 31, 2005

### **Note I - Summary of Significant Accounting Policies (Continued)**

**Compensated Absences (Vacation and Sick Leave)** - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall as of December 31, 2004		\$	(123,723)
Current year building permit revenue			251,801
Related expenses:			
Direct costs	\$	(225,143)	
Estimated indirect costs		<u>(49,914)</u>	<u>(275,057)</u>
Current year shortfall			<u>(23,256)</u>
Shortfall as of December 31, 2005		\$	<u>(146,979)</u>

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Township is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note 3 - Deposits and Investments (Continued)

The Township has designated seven banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Township's deposits and investment policies are in accordance with statutory authority.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

#### Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$8,230,807 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Bank Investment Pools	\$76,922	AI	Moody

# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note 4 - Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unearned	Unavailable	Total
Property taxes	\$ 4,835,675	\$ -	\$ 4,835,675
Special assessments	-	1,067,174	1,067,174
Total	<u>\$ 4,835,675</u>	<u>\$ 1,067,174</u>	<u>\$ 5,902,849</u>

### Note 5 - Capital Assets

Capital asset activity of the Township's governmental activities is summarized as follows:

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Capital assets not being depreciated - Land	\$ 2,332,983	\$ -	\$ -	\$ 2,332,983
Capital assets being depreciated:				
Buildings and improvements	2,924,925	717,122	-	3,642,047
Library building	5,868,115	29,353	-	5,897,468
Furniture and equipment	1,923,883	175,484	1,874	2,097,493
Water mains	1,599,100	-	-	1,599,100
Subtotal	12,316,023	921,959	1,874	13,236,108
Accumulated depreciation:				
Buildings and improvements	815,623	104,203	-	919,826
Library building	205,475	205,401	-	410,876
Furniture and equipment	929,801	156,261	1,287	1,084,775
Water mains	64,898	31,982	-	96,880
Subtotal	2,015,797	497,847	1,287	2,512,357
Net capital assets being depreciated	10,300,226	424,112	587	10,723,751
Net capital assets	<u>\$ 12,633,209</u>	<u>\$ 424,112</u>	<u>\$ 587</u>	<u>\$ 13,056,734</u>

# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 326,380
Public safety	115,580
Public works	31,982
Recreation and culture	<u>23,905</u>

Total governmental activities	<u>\$ 497,847</u>
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### Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
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#### Due to/from Other Funds

General Fund	Capital Projects Funds - Water Fund	<u>\$ 64,892</u>
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These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Special Revenue Funds - Postemployment Benefit Fund	\$ 10,000
General Fund	Special Revenue Funds - Road Fund	40,000
Special Revenue Funds - Fire Operating Fund	Special Revenue Funds - Fire Capital Fund	15,000
Special Revenue Funds - Refuse Fund	General Fund	<u>9,626</u>
Total interfund transfers		<u>\$ 74,626</u>

# **Charter Township of Highland**

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## **Notes to Financial Statements December 31, 2005**

### **Note 6 - Interfund Receivables, Payables, and Transfers (Continued)**

The transfer from the General Fund to the Postemployment Benefit Fund is to cover future retiree health expenses. The transfer from the General Fund to the Road Fund is to finance road maintenance and improvement. The transfer from the Fire Operating Fund to the Fire Capital Fund is for the purchase of capital assets. The transfer from the Refuse Fund to the General Fund is to pay for administrative expenses.

### **Note 7 - Long-term Debt**

The Township issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the Township. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a reassessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note 7 - Long-term Debt (Continued)

Long-term obligation activity is summarized as follows:

	Remaining Interest Rate Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
General obligation bonds:					
Library Building:					
Original issue \$5,765,000					
Maturing through 2019	4.60%	\$ 4,840,000	\$ (250,000)	\$ 4,590,000	\$ 260,000
Special assessment bonds:					
Highland Lk. Augmentation Well					
Original issue \$140,000					
Maturing through 2012	5.00% - 6.30%	125,000	(15,000)	110,000	15,000
Kellogg Taggett Augmentation Well:					
Original issue \$170,000					
Maturing through 2011	6.30% - 6.80%	130,000	(15,000)	115,000	15,000
Lakeview Lane Road Improvement:					
Original issue \$85,000					
Maturing through 2007	5.50% - 5.60%	25,500	(8,500)	17,000	8,500
Woodruff Lake Augmentation Well:					
Original issue \$77,000					
Maturing through 2010	7.50% - 9.00%	50,000	(8,000)	42,000	8,000
M-59 Water Main:					
Original issue \$1,060,000					
Maturing through 2016	3.63% - 4.70%	900,000	(75,000)	825,000	75,000
S. Milford Water Main:					
Original issue \$170,000					
Maturing through 2013	3.30% - 4.45%	170,000	(10,000)	160,000	20,000
Other long-term obligations:					
Installment purchase obligations:					
Fire vehicle:					
Original issue \$164,103					
Maturing through 2009	4.63%	94,670	(15,330)	79,340	17,520
Fire vehicle:					
Original issue \$210,897					
Maturing through 2009	4.63%	120,330	(19,670)	100,660	22,480
Subtotal		6,455,500	(416,500)	6,039,000	441,500
Compensated absences		49,092	(2,369)	46,723	46,723
Property tax appeals		56,796	10,008	66,804	-
Total long-term debt		\$ 6,561,388	\$ (408,861)	\$ 6,152,527	\$ 488,223

# **Charter Township of Highland**

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## **Notes to Financial Statements December 31, 2005**

### **Note 7 - Long-term Debt (Continued)**

The special assessment bonds represent the financing of public improvements that benefit specific districts; these districts are specially assessed, at least in part, for the cost of the improvements. There is approximately \$1,072,000 of special assessments receivable in the future in the Capital Projects Funds - Lakeview Lane Improvements, Woodruff Lake, Kellogg Taggett, Highland Lake, and Water; in addition, the Township has approximately \$449,000 set aside in these funds for the repayment of the bonds. The amount of receivables delinquent at December 31, 2005 is not significant. Under Michigan law, the Township is secondarily liable for payment of these bonds.

The compensated absences represent the estimated liability to be paid to employees under the Township's sick and vacation pay policy. Under the Township's policy, employees earn sick and vacation time based on time of service with the Township.

In November 1999, the State Tax Commission approved revised personal property tax tables for utilities. The revised tables could affect taxes collected from 1997 to present due to local units of government continuing to use the personal property tax tables in effect prior to 1999. The issue was the subject of a lawsuit brought by several units of government against the State Tax Commission, challenging the constitutionality of the new utility personal property tax tables. In April 2002, the revised tables were upheld by the court.

During 2004, the tax tables were again upheld on appeal. The amounts paid to the Township in excess of the approved amounts using the new tables would potentially need to be refunded to the utility companies. This could result in refunds, including interest, of approximately \$67,000. Appeals are still being undertaken by taxing authorities. Therefore, the potential refund related to the governmental funds has been recorded as a long-term liability on the government-wide statement of net assets at December 31, 2005.

Interest expense for the year ended December 31, 2005 totaled approximately \$339,000.



# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note 7 - Long-term Debt (Continued)

The annual debt service requirements to service all debt outstanding (excluding compensated absences and property tax appeals), including both principal and interest, as of December 31, 2005 are as follows:

	Principal	Interest	Total
2006	\$ 441,500	\$ 269,598	\$ 711,098
2007	466,500	248,943	715,443
2008	468,000	227,204	695,204
2009	491,500	205,192	696,692
2010	444,000	182,178	626,178
2011-2015	2,162,500	606,768	2,769,268
2016-2019	1,565,000	139,533	1,704,533
Total	<u>\$ 6,039,000</u>	<u>\$ 1,879,416</u>	<u>\$ 7,918,416</u>

### Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and medical benefit claims, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program. Member premiums are used to purchase Authority-underwritten excess insurance coverage and to pay member claims in excess of deductible amounts.

### Note 9 - Defined Contribution Retirement Plan

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months from the date of employment. As established by the Township board of trustees, the Township contributes 15 percent of employees' gross earnings. The Township's contributions for each employee are immediately fully vested. In accordance with these requirements, the Township contributed \$114,115 during the current year. There are no provisions in the plan for employee contributions.

# Charter Township of Highland

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## Notes to Financial Statements December 31, 2005

### Note 10 - Postretirement Benefits

The Township provides health care benefits to all full-time employees upon retirement in accordance with the Township board's policy. Currently, seven retirees are eligible. In addition, 20 active employees may be entitled to benefits upon retirement. Expenditures for postretirement health care benefits are recognized as the insurance premiums become due; during the year, this amounted to \$34,233.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

### Note 11 - Budgetary Information

**Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end; encumbrances are not included as expenditures. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, all departments and entities within the Township submit to the Township supervisor their proposed operating budget for the fiscal year commencing the following January 1.

# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note 11 - Budgetary Information (Continued)

- During the last meeting in September, the bookkeeper submits to the Township board a proposed balanced operating budget for the next fiscal year. The operating budget includes proposed expenditures and the means of financing them. The board adopts this budget at the same meeting.
- A public hearing is conducted to obtain taxpayers' comments.
- The current year budget can be amended through the last board meeting of that year.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the Charter Township of Highland incurred no expenditures that were in excess of the amounts budgeted.

### Note 12 - Restricted Net Assets

Fund balances of governmental funds have been restricted for the following purposes:

Police	\$ 257,772
Fire operations	<u>364,767</u>
Total police and fire operations	622,539
Debt service:	
Library	7,779
Lakeview Lane improvement	11,105
Woodruff Lake	23,373
Kellogg-Taggart	81,052
Highland Lake Well	<u>88,667</u>
Total debt service	211,976
Capital projects:	
Library	29,174
Woodruff Lake	14,926
Kellogg-Taggart	13,402
Highland Lake Well	15,857
Peninsula Lake Weed Harvesting	<u>4,508</u>
Total capital projects	77,867
Water projects:	
Water	918,198
Lakeview Lane improvement	16,188
Woodruff Lake	18,234
Kellogg-Taggart	56,936
Highland Lake Well	62,705
Peninsula Lake Weed Harvesting	<u>7,956</u>
Total water projects	1,080,217
Refuse	<u>555,326</u>
Total restricted net assets	<u>\$ 2,547,925</u>

# Charter Township of Highland

## Notes to Financial Statements December 31, 2005

### Note 13 - Designations

Unreserved fund balances have been designated for the following purposes:

Designated For	Funds								Total
	General	Capital Improvement	Library Building	Water	Refuse	Fire Operating	Police	Nonmajor	
Subsequent year's expenditures	\$ 32,559	\$ -	\$ -	\$ 2,465	\$ -	\$ -	\$ 36,385	\$ 40,000	\$ 111,409
Future years' expenditures	29,778	48,494	-	-	-	-	-	138,490	216,762
Total designated	62,337	48,494	-	2,465	-	-	36,385	178,490	328,171
Undesignated	1,190,898	729,070	-	139,213	555,326	364,767	221,387	108,520	3,309,181
Total unreserved	\$ 1,253,235	\$ 777,564	\$ -	\$ 141,678	\$ 555,326	\$ 364,767	\$ 257,772	\$ 287,010	\$ 3,637,352

## **Required Supplemental Information**

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# Charter Township of Highland

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
General property taxes	\$ 434,423	\$ 434,423	\$ 454,773	\$ 20,350
Licenses and permits	205,500	226,000	251,801	25,801
Federal sources	-	-	34,133	34,133
State sources:				
State grants	11,800	11,800	8,881	(2,919)
State-shared revenue	1,380,184	1,380,184	1,386,549	6,365
Charges for services	207,500	221,825	306,372	84,547
Interest	10,000	10,000	48,651	38,651
Other revenue	131,140	131,140	149,542	18,402
Transfer from other funds	10,424	10,424	9,626	(798)
Total revenue	2,390,971	2,425,796	2,650,328	224,532
<b>Expenditures</b>				
Legislative	23,444	23,444	22,756	688
Supervisor's office	162,678	162,678	155,645	7,033
Clerk's office	129,413	139,032	138,399	633
Treasurer's office	142,673	142,673	134,978	7,695
Accounting department	55,662	55,662	51,819	3,843
General government	1,076,875	1,183,182	1,084,241	98,941
Social services	10,036	11,529	9,834	1,695
Senior center	146,203	146,203	143,220	2,983
Cemetery	27,300	27,300	22,933	4,367
Public safety	22,885	22,885	22,885	-
Building	208,388	228,888	225,143	3,745
Planning	180,784	180,784	170,771	10,013
Assessing	153,358	143,739	143,116	623
Zoning Board of Appeals	13,140	13,140	11,754	1,386
Community parks	25,000	34,370	13,059	21,311
Transfers to other funds	50,000	50,000	50,000	-
Total expenditures	2,427,839	2,565,509	2,400,553	164,955
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	(36,868)	(139,713)	249,775	389,487
<b>Fund Balance - Beginning of year</b>	1,003,460	1,003,460	1,003,460	-
<b>Fund Balance - End of year</b>	<u>\$ 966,592</u>	<u>\$ 863,747</u>	<u>\$ 1,253,235</u>	<u>\$ 389,487</u>

# Charter Township of Highland

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Refuse Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Charges for services	\$ 1,042,440	\$ 1,042,440	\$ 932,974	\$ (109,466)
Interest income	10,000	10,000	28,170	18,170
Other	<u>68,615</u>	<u>93,115</u>	<u>35,541</u>	<u>(57,574)</u>
Total revenue	1,121,055	1,145,555	996,685	(148,870)
<b>Expenditures</b>				
General government - Refuse collection	1,065,057	1,184,357	845,606	338,751
Public works - Transfers to other funds	<u>10,424</u>	<u>10,424</u>	<u>9,626</u>	<u>798</u>
Total expenditures	<u>1,075,481</u>	<u>1,194,781</u>	<u>855,232</u>	<u>339,549</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	45,574	(49,226)	141,453	190,679
<b>Fund Balance - Beginning of year</b>	<u>413,873</u>	<u>413,873</u>	<u>413,873</u>	<u>-</u>
<b>Fund Balance - End of year</b>	<u><b>\$ 459,447</b></u>	<u><b>\$ 364,647</b></u>	<u><b>\$ 555,326</b></u>	<u><b>\$ 190,679</b></u>

# Charter Township of Highland

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Fire Operating Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
General property taxes	\$ 661,268	\$ 661,268	\$ 656,911	\$ (4,357)
Interest	6,000	6,000	18,835	12,835
Other revenue	10,000	10,000	8,801	(1,199)
Total revenue	677,268	677,268	684,547	7,279
<b>Expenditures</b>				
Fire department	647,268	647,268	580,092	67,176
Transfers to other funds	15,000	15,000	15,000	-
Total expenditures	662,268	662,268	595,092	67,176
<b>Excess of Revenue Over Expenditures</b>	15,000	15,000	89,455	74,455
<b>Fund Balance - Beginning of year</b>	275,312	275,312	275,312	-
<b>Fund Balance - End of year</b>	<u>\$ 290,312</u>	<u>\$ 290,312</u>	<u>\$ 364,767</u>	<u>\$ 74,455</u>



# Charter Township of Highland

## Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds - Police Fund Year Ended December 31, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
General property taxes	\$ 1,978,029	\$ 1,978,029	\$ 1,965,125	\$ (12,904)
State grants	5,000	5,000	5,209	209
Local grants	16,000	16,000	16,000	-
Charges for services	190,726	190,726	185,409	(5,317)
Interest	20,000	20,000	39,743	19,743
Other revenue	1,000	1,000	1,720	720
Total revenue	2,210,755	2,210,755	2,213,206	2,451
<b>Expenditures - Police expenditures</b>	<u>2,300,154</u>	<u>2,300,154</u>	<u>2,288,599</u>	<u>11,555</u>
<b>Excess of Expenditures Over Revenue</b>	(89,399)	(89,399)	(75,393)	14,006
<b>Fund Balance - Beginning of year</b>	<u>333,165</u>	<u>333,165</u>	<u>333,165</u>	-
<b>Fund Balance - End of year</b>	<u><b>\$ 243,766</b></u>	<u><b>\$ 243,766</b></u>	<u><b>\$ 257,772</b></u>	<u><b>\$ 14,006</b></u>

## **Other Supplemental Information**

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# Charter Township of Highland

	Special Revenue Funds		
	Road	Fire Capital	Postemployment Benefits
<b>Assets</b>			
Cash and investments	\$ 27,202	\$ 148,520	\$ 110,000
Special assessment receivable	-	-	-
Taxes receivable	-	-	-
Prepaid expenses and other assets	-	-	1,288
Total assets	<u>\$ 27,202</u>	<u>\$ 148,520</u>	<u>\$ 111,288</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b> - Deferred revenue	\$ -	\$ -	\$ -
<b>Fund Balances</b>			
Reserved for capital outlay	-	-	-
Reserved for debt service	-	-	-
Designated for subsequent year's budget	-	40,000	-
Designated for future years' projects	27,202	-	111,288
Unreserved and undesignated	-	108,520	-
Total fund balances	<u>27,202</u>	<u>148,520</u>	<u>111,288</u>
Total liabilities and fund balances	<u>\$ 27,202</u>	<u>\$ 148,520</u>	<u>\$ 111,288</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2005**

Capital Projects Funds						Total Nonmajor Governmental Funds
Lakeview Lane Improvement	Woodruff Lake	Kellogg-Taggett	Highland Lake Well	Peninsula Lake Weed Harvesting	Library Building	
\$ 10,538	\$ 35,758	\$ 89,127	\$ 99,447	\$ 4,509	\$ 280,012	\$ 805,113
16,188	18,234	56,936	62,705	7,956	-	162,019
-	-	-	-	-	218,536	218,536
-	-	-	-	-	-	1,288
<b><u>\$ 26,726</u></b>	<b><u>\$ 53,992</u></b>	<b><u>\$ 146,063</u></b>	<b><u>\$ 162,152</u></b>	<b><u>\$ 12,465</u></b>	<b><u>\$ 498,548</u></b>	<b><u>\$ 1,186,956</u></b>
\$ 15,621	\$ 15,693	\$ 51,609	\$ 57,628	\$ 7,957	\$ 461,595	\$ 610,103
-	14,926	13,402	15,857	4,508	29,174	77,867
11,105	23,373	81,052	88,667	-	7,779	211,976
-	-	-	-	-	-	40,000
-	-	-	-	-	-	138,490
-	-	-	-	-	-	108,520
11,105	38,299	94,454	104,524	4,508	36,953	576,853
<b><u>\$ 26,726</u></b>	<b><u>\$ 53,992</u></b>	<b><u>\$ 146,063</u></b>	<b><u>\$ 162,152</u></b>	<b><u>\$ 12,465</u></b>	<b><u>\$ 498,548</u></b>	<b><u>\$ 1,186,956</u></b>

# Charter Township of Highland

	Special Revenue Funds		
	Road	Fire Capital	Postemployment Benefits
<b>Revenue</b>			
General property taxes	\$ -	\$ -	\$ -
Special assessments	-	-	-
Interest on investments	834	4,817	-
Other revenue	-	-	-
Total revenue	834	4,817	-
<b>Expenditures</b>			
Debt service	-	-	-
Capital outlay and other	56,784	142,246	-
Total expenditures	56,784	142,246	-
<b>Excess of Revenue Over (Under) Expenditures</b>	(55,950)	(137,429)	-
<b>Other Financing Sources</b> - Transfers from other funds	40,000	15,000	10,000
<b>Net Change in Fund Balances</b>	(15,950)	(122,429)	10,000
<b>Fund Balances</b> - Beginning of year	43,152	270,949	101,288
<b>Fund Balances</b> - End of year	<u>\$ 27,202</u>	<u>\$ 148,520</u>	<u>\$ 111,288</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and**  
**Changes in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended December 31, 2004**

Capital Projects Funds						Total Nonmajor Governmental Funds
Lakeview Lane Improvement	Woodruff Lake	Kellogg-Taggett	Highland Lake Well	Peninsula Lake Weed Harvesting	Library Building	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 464,385	\$ 464,385
9,065	10,591	27,561	28,599	3,978	-	79,794
-	-	-	-	-	-	5,651
<u>344</u>	<u>710</u>	<u>1,785</u>	<u>1,939</u>	<u>37</u>	<u>5,653</u>	<u>10,468</u>
9,409	11,301	29,346	30,538	4,015	470,038	560,298
9,902	12,145	23,285	22,003	-	467,028	534,363
<u>-</u>	<u>-</u>	<u>-</u>	<u>664</u>	<u>2,566</u>	<u>944</u>	<u>203,204</u>
<u>9,902</u>	<u>12,145</u>	<u>23,285</u>	<u>22,667</u>	<u>2,566</u>	<u>467,972</u>	<u>737,567</u>
(493)	(844)	6,061	7,871	1,449	2,066	(177,269)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,000</u>
(493)	(844)	6,061	7,871	1,449	2,066	(112,269)
<u>11,598</u>	<u>39,143</u>	<u>88,393</u>	<u>96,653</u>	<u>3,059</u>	<u>34,887</u>	<u>689,122</u>
<b><u>\$ 11,105</u></b>	<b><u>\$ 38,299</u></b>	<b><u>\$ 94,454</u></b>	<b><u>\$ 104,524</u></b>	<b><u>\$ 4,508</u></b>	<b><u>\$ 36,953</u></b>	<b><u>\$ 576,853</u></b>

February 7, 2006

Members of the Township Board  
Charter Township of Highland  
205 N. John Street  
Highland, MI 48357

Dear Board Members:

We have recently completed our audit of the financial statements for the Charter Township of Highland for the year ended December 31, 2005. As a result of our audit, we offer the following observations and comments for your consideration:

The Township continues to improve the condition of its financial records and strengthen its internal controls. Most of our suggestions from the previous audit have been adopted this past year.

This was the second year after adopting GASB 34 for the Township. The capital asset records and dedicated software continue to be improved.

### **Overview of the Township's Financial Condition**

The General Fund fund balance at December 31, 2005 is approximately \$1,200,000, of which \$62,337 has been designated for expenditures in future years. The undesignated portion of fund balance represents approximately 48 percent of 2005 expenditures. In the coming years, the Township will continue to face future revenue reductions as the State's economic growth and associated revenue-sharing payments decline. The Township has appropriately placed emphasis in the past on maintaining a sufficient level of fund balance to be able to adjust to expected and unanticipated financial changes, such as you are currently experiencing. An adequate level of fund balance positions the Township to address negative financial changes without disrupting the level of services provided to citizens or the Township's ability to fund future obligations.

### **Internal Control Considerations**

During the audit, we noted the following regarding the internal control structure:

### **Bid Approvals**

- The Township requires bid approvals for all assets purchased over \$1,000. The Township may want to consider raising this threshold or soliciting telephone bids for the smaller purchases instead of initiating the formal bid process. The threshold at the current level may result in lost time and other costs that outweigh the benefits of the formal bid procedures.

As noted above, the Township has implemented the majority of our suggestions from the prior audit. We congratulate the management and staff of the Township for their diligence in these matters.

### **Revenue Sharing**

State-shared revenue accounts for approximately 52 percent of the Township's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

The governor introduced her 2006 budget with a \$773 million shortfall in February 2005. At this time, the budgeted amount for revenue sharing in 2006 is approximately the same as the 2005 funding level. The details on how the monies will be distributed on an individual community basis are yet to be confirmed.

We will continue to update the Township as developments occur.

### **Upcoming Reporting Change**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits other than pensions. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

This new pronouncement could have a significant effect on Highland Township. We recommend having an actuarial evaluation prepared in order to fully understand the future impact of the pronouncement. Also, we recommend that the Township analyze the effect of establishing a trust fund for the resources that have already been set aside for postemployment benefits.



We would like to thank the Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

**Plante & Moran, PLLC**



Leslie J. Pulver



Brian J. Camiller